

BOH BETTOR SOCIETY

Enabling Filipinos to trade markets better

Investment Process

23 August 2015

TOPIC OUTLINE

I. BoH Investment Process

II. Tips on Portfolio Construction

BOH INVESTMENT PROCESS

PRIMARY COMPONENT

WHAT IS YOUR MARKET BIAS?

SET YOUR EQUITY ALLOCATION

IF YOU ARE BULLISH, STAY 100% INVESTED AND REBALANCE BETWEEN 0-5% CASH.

IF YOU ARE BEARISH, FIND OUT HOW BEARISH YOU ARE!

MILDLY BEARISH: UP TO 10% CASH

MODERATELY BEARISH: UP TO 25% CASH

EXTREMELY BEARISH: MORE THAN 50% CASH

Ideas Generation

Portfolio Construction

Technical Analysis

Search for outliers

Scatter Plot
Volume Buzz
Flows Data

Screen for momentum and analyze Volatility

Relative
Momentum
Absolute
Momentum
Hedge Ratio

Formulate trading plan

Support
Resistance
Line in Sand

PRINCIPAL COMPONENT

WHAT IS YOUR OVERALL BIAS?

Trade Execution

Position Size
Tranche Entry
Top Slice
Sell All
Stop Loss

4 Useful Screening Tools for BoHemians

More than the ideas we generate and the charts we post daily, here are the most useful tools you can use to find trading ideas and apply your own personal parameters. Make them part of your process!

Scatter Plot – A unique way for tracking price performance and to spotting leaders, laggards, and outliers

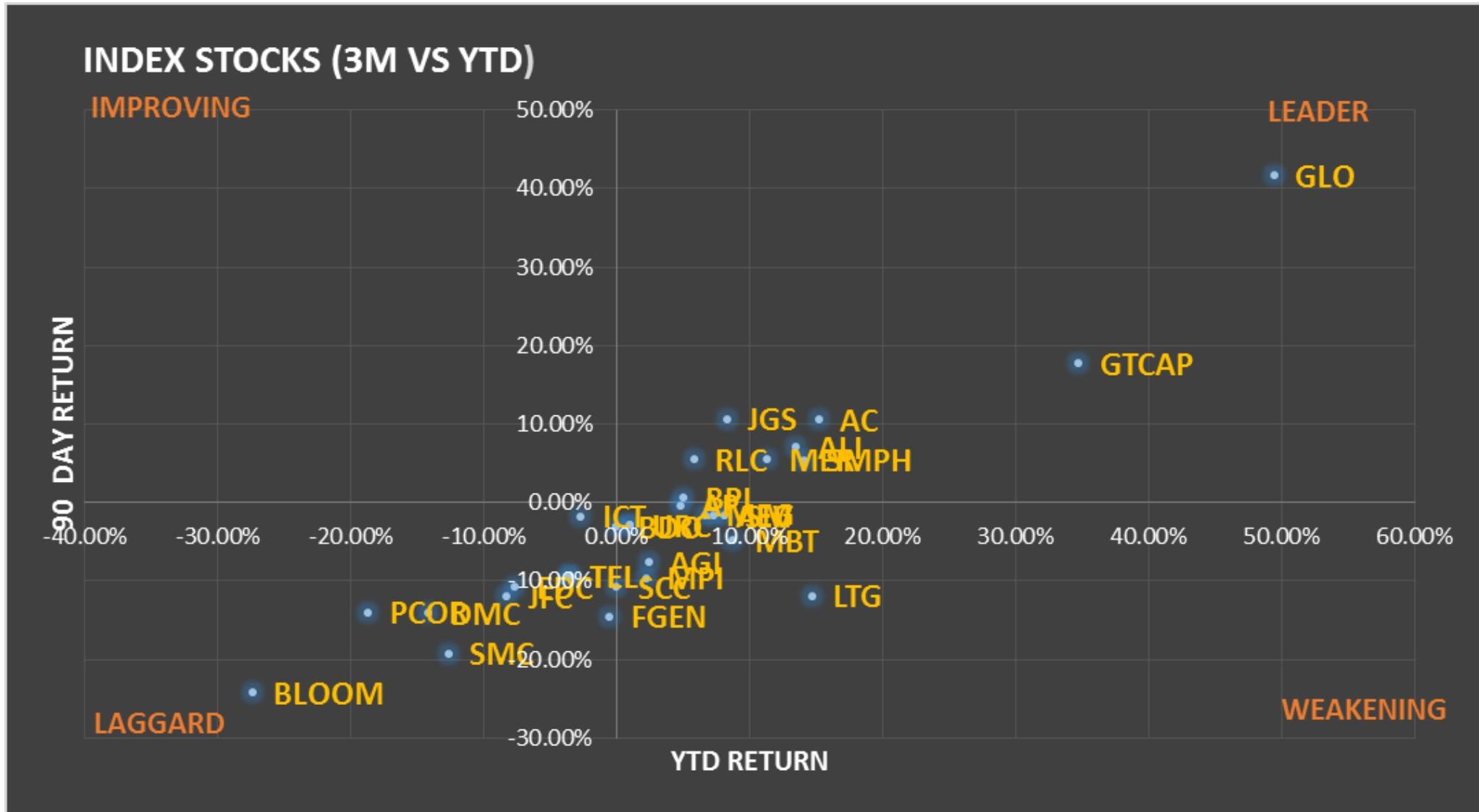
Volume Buzz – An EoD summary of unusual volume action across all stocks in our universe. Useful for third liners. Track footprints like no other.

Foreign Flows Report – Never trade against flows ever again. Monitor moving averages and sums to spot inflection points in flow direction.

Black Box – Whether you know what stocks you like or you're starting from scratch, our momentum-based model highlights traits you'd like to have in your stock picks.

SCATTER PLOTS

SCATTER PLOT



SCATTER PLOT

INDEX STOCKS (5D VS 1M)

IMPROVING

LEADER

-5 DAY RETURN

-25.00% -20.00% -15.00%

10.00%

8.00%

6.00%

4.00%

2.00%

0.00%

-2.00%

-4.00%

-6.00%

-10.00% -5.00% 5.00% 10.00%

LAGGARD

WEAKENING

30 DAY RETURN

BLOOM

SCC FGEN

DMC

PCOR

JFC

MBI

BDO

ICT

AP

MER

GTCAP

TEL

AEV

SMC

RIC

ALI

URC

MEG

LTG

AGI

EDC

JGS

AC

MPI

BPI

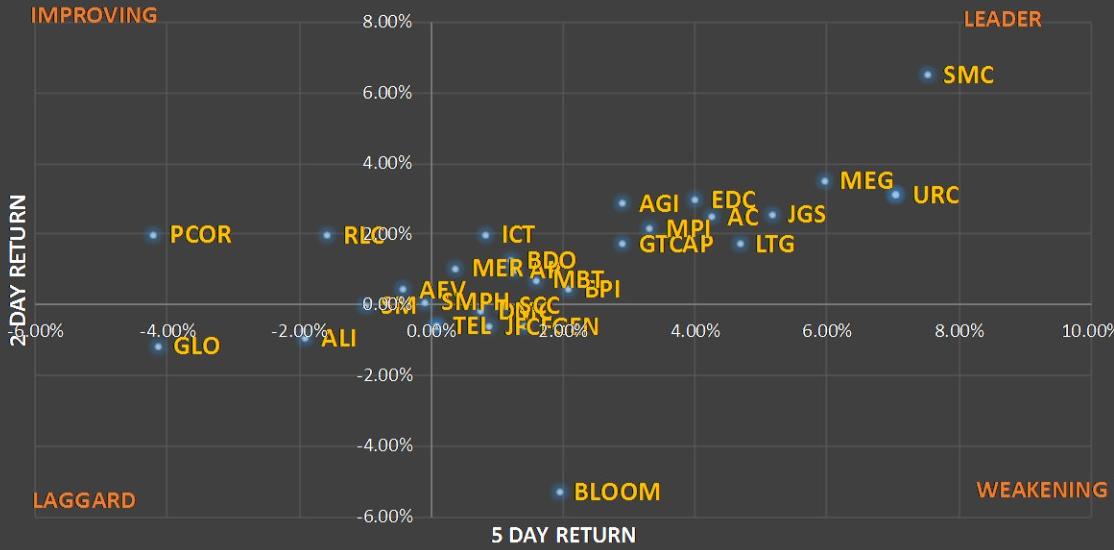
SMC

PCOR

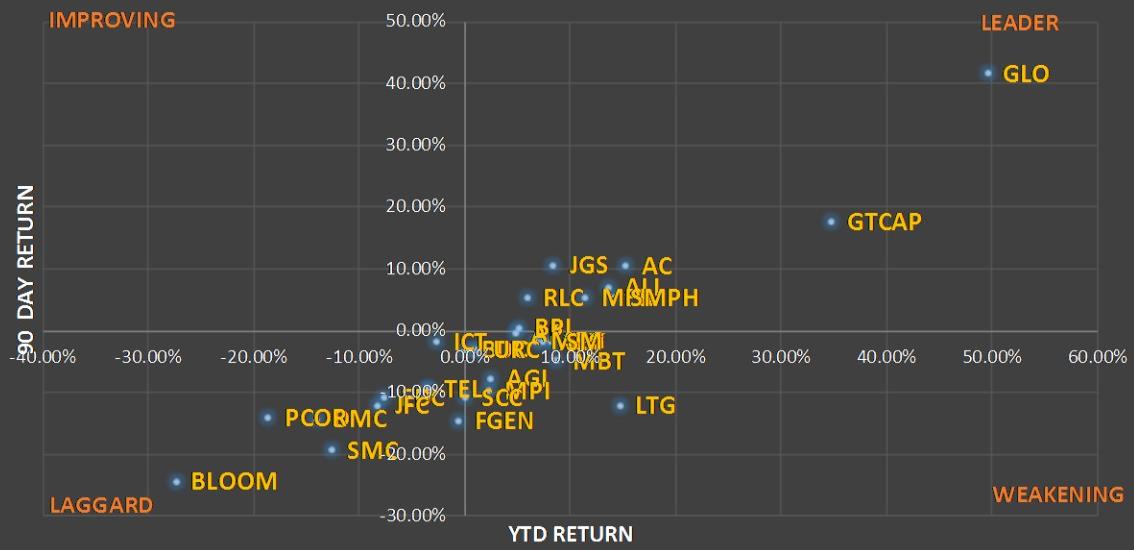
GLO

BOH SCATTER PLOTS

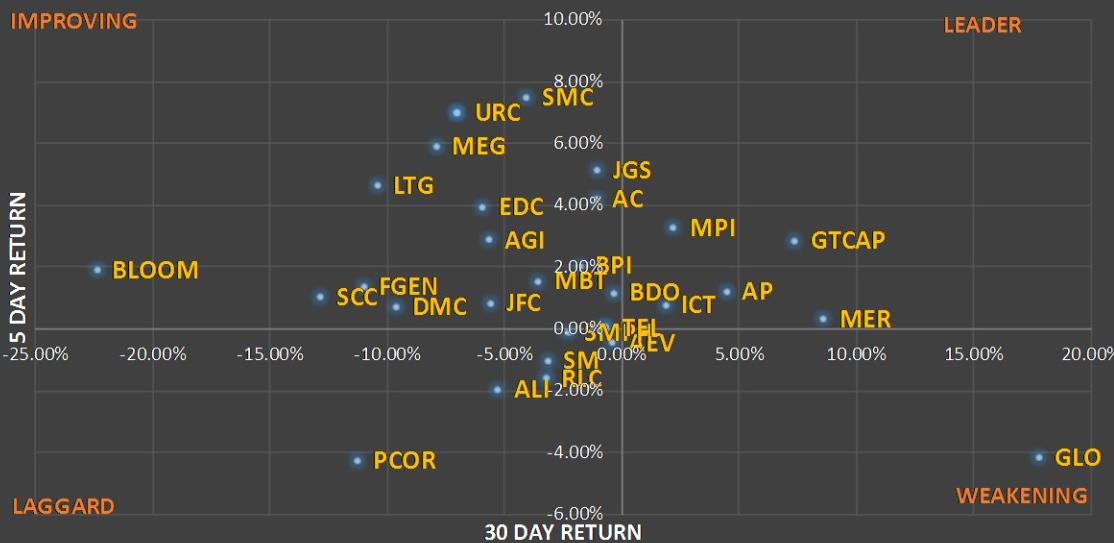
INDEX (2D VS 5D)



INDEX STOCKS (3M VS YTD)



INDEX STOCKS (5D VS 1M)



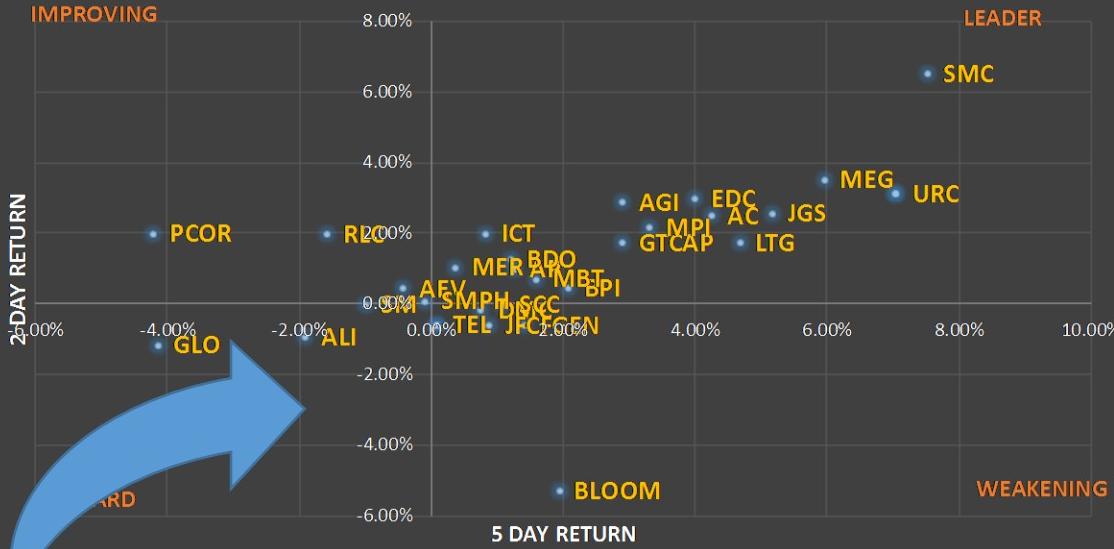
INDEX STOCKS (1M VS 3M)



BOH INVESTMENT PROCESS

BOH SCATTER PLOTS

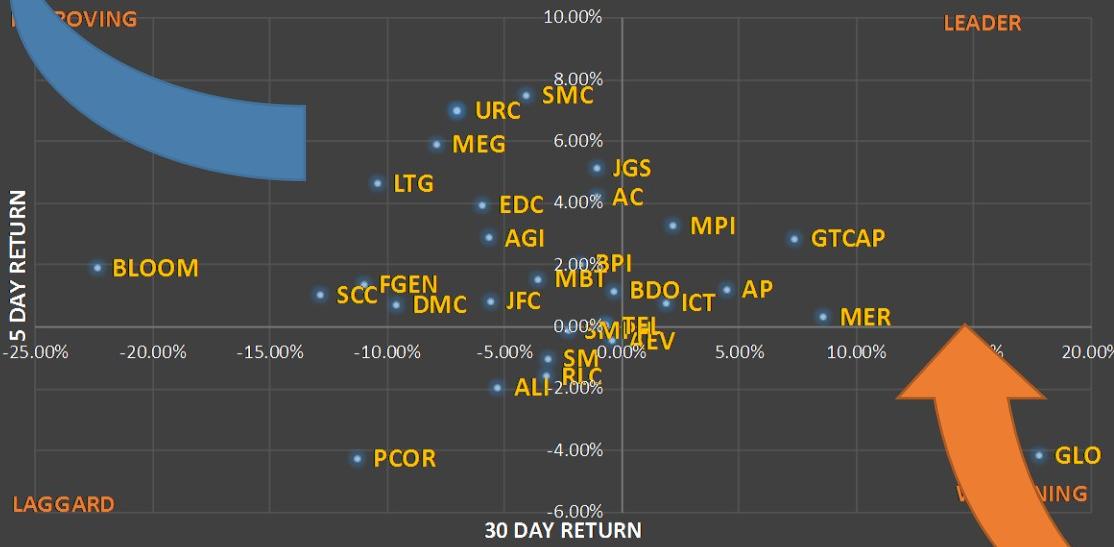
INDEX (2D VS 5D)



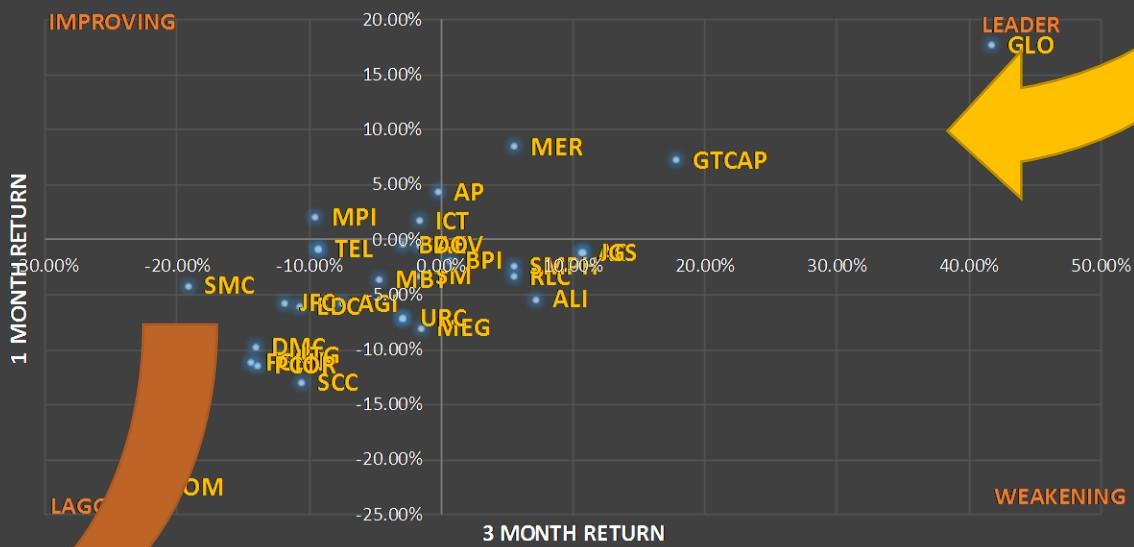
INDEX STOCKS (3M VS YTD)



INDEX STOCKS (5D VS 1M)



INDEX STOCKS (1M VS 3M)



VOLUME AND FLOWS ANALYSIS

VOLUME BUZZ

What is Volume Buzz?

- It's a number that tells you how much trading activity a stock is getting today. A value of 0 is normal. 150% is elevated. -50% is low.
- Play detective. Check chart and see if there is a set-up. Check if the volume buzz translated to price action. Check nominal value of the trade to see how liquid it is. See if there have been other volume buzzes in the last 5-7 days et cetera.
- Add to watch list and set-up a trading plan.

Bottom line: It's a TRADE FILTER that watches out for FOOTPRINTS.

BOH VOLUME BUZZ

Date 24-Jul-15

Symbol	Sector	BIAS	MOM Score	5D Buzz	20D Buzz	50D Buzz	PP	D
2GO	Transport	Bullish	1.27	703%	1654%	1377%	0	
ABSP	Media/Telco	Neutral	0.98	2222%	1315%	996%	1	1
PSE	Financial	Bearish	0.90	2147%	486%	784%	0	
DAVIN	Conglo	Bearish	0.88	628%	1036%	737%	1	0
OV	Oil	Bearish	0.79	356%	656%	686%	1	
PSB	Financial	Neutral	0.96	515%	1136%	647%	1	
OPM	Others	Bearish	0.78	596%	1539%	623%	1	1
RLT	Property	Bearish	0.88		1740%	593%	1	1
LRW	Gaming	Neutral	1.04	503%	685%	580%	0	
TUGS	Others	Bearish	0.93	190%	638%	461%	1	0
LR	Gaming	Bullish	1.10	216%	600%	451%	0	
MAC	Others	Neutral	1.01	580%	426%	424%	0	
LSC	Others	Neutral	0.99	4250%	262%	348%	0	

Finally, we have PP and D Columns. PP is our way of measuring Tagging whether the stock printed the largest volume turnover on a down Day. This is our measure of “capitulation” and is very useful in identifying Potential reversal points. D column is just divergence similar to how it Is used in our black box.

FOREIGN FLOWS

What is Flow?

- Flow or net foreign flow measures the amount of net buying or selling activity of foreigners.
- We track this very closely since these are considered “smart money” which can be very large and often influences price direction significantly during accumulation and distribution phases.

Bottom line: You want to be on the right side of foreign flows. Try to avoid stocks foreigners are selling aggressively. Try to buy stocks that they are accumulating incrementally.

Flows into PH Index Stocks - time series averages											
In Php thousands											
TOTAL						(2,522,022)	47,474,574	(30,236,933)	33,856,259	5,563,236	54,135,115
Symbols	Sector	2 wk avg	4 wk avg	13 wk avg	2015 avg	2015	2014	2013	2012	2011	5-year total
SMPH	Property	415,550	622,148	350,124	322,419	8,705,305	4,731,329	(6,363,648)	(1,766,960)	1,716,235	7,022,261
URC	Consumer	314,137	411,732	(211,445)	4,411	119,095	4,363,583	1,178,275	1,242,196	3,532,055	10,435,203
MBT	Financial	202,951	202,142	(75,286)	125,227	3,381,142	318,677	(7,132,275)	218,949	418,768	(2,794,740)
JGS	Conglo	81,054	112,614	(45,064)	(29,470)	(795,700)	8,811,246	(113,547)	10,930	472,178	8,385,107
GTCAP	Conglo	205,225	76,366	86,015	(4,074)	(110,004)	2,082,457	244,671	3,636,657	-	5,853,780
JFC	Consumer	154,599	62,363	(27,815)	(98,391)	(2,656,565)	1,900,078	815,895	638,238	632,797	1,330,444
MPI	Conglo	42,422	54,761	40,130	1,834	49,519	429,478	(201,738)	(1,295,453)	(1,172,134)	(2,190,329)
MER	Utilities	130,865	30,703	78,147	(5,733)	(154,793)	(1,205,870)	149,906	(3,451,977)	(13,826)	(4,676,560)
ICT	Transport	(32,979)	8,870	13,734	13,932	376,167	(1,208,031)	(565,641)	2,765,397	703,850	2,071,742
AGI	Conglo	24,870	4,888	(195,131)	(73,424)	(1,982,435)	(3,828,506)	1,247,409	5,377,628	(1,509,515)	(695,419)
LTG	Conglo	(4,884)	3,275	9,670	(6,232)	(168,265)	(993,592)	1,190,844	214,609	(2,669)	240,927
PCOR	Oil	2,063	2,294	(3,667)	4,627	124,920	(2,728,508)	(42,675)	(4,102,497)	(16,752)	(6,765,512)
SMC	Conglo	(11,767)	(19,230)	(20,267)	(22,978)	(620,400)	(207,128)	(2,718,047)	1,714,047	(493,012)	(2,324,541)
AP	Power	(79,724)	(31,129)	60	10,140	273,779	1,359,019	(1,136,360)	2,496,485	(1,041,252)	1,951,671
EMP	Consumer	(26,434)	(32,640)	(4,588)	19,380	523,249	(2,382,889)	(878,443)	(2,503)	(1,058)	(2,741,645)
BLOOM	Gaming	(56,112)	(36,692)	52,227	30,602	826,244	123,447	(3,004,404)	(2,338,674)	425	(4,392,961)
DMC	Construction	(19,197)	(48,891)	(97,436)	18,154	490,154	(780,665)	(303,068)	1,950,753	110,467	1,467,642
AEV	Conglo	(45,253)	(49,992)	(90,673)	7,043	190,160	135,692	2,142,556	5,496,337	6,979,300	14,944,044
RLC	Property	(18,234)	(53,551)	30,382	43,557	1,176,026	782,307	(179,929)	1,459,202	(605,790)	2,631,817
EDC	Power	(74,637)	(99,881)	(151,538)	(82,459)	(2,226,406)	(894,550)	(533,742)	(1,271,869)	(2,511,124)	(7,437,691)
FGEN	Power	(72,220)	(116,075)	(100,971)	(53,807)	(1,452,787)	(291,487)	(1,284,823)	1,654,058	464,648	(910,391)
TEL	Media/Telco	(45,408)	(122,075)	(361,761)	(99,752)	(2,693,310)	21,293,552	(12,605,403)	(3,714,323)	1,211,470	3,491,986
SCC	Mining	(51,583)	(129,569)	(38,015)	26,566	717,283	243,064	146,919	(843,301)	(3,482,640)	(3,218,675)
AC	Conglo	(249,313)	(138,372)	(29,834)	134,220	3,623,927	2,271,064	1,659,437	(291,278)	(1,858,681)	5,404,468
MEG	Property	(116,389)	(151,276)	(253,777)	(65,968)	(1,781,133)	3,495,812	(2,090,072)	4,933,251	(3,237,538)	1,320,321
BPI	Financial	(220,081)	(268,772)	(197,205)	5,067	136,821	990,351	(3,349,560)	3,453,588	(1,246,896)	(15,697)
BDO	Financial	(223,410)	(271,018)	(323,691)	(143,320)	(3,869,642)	8,777,163	(3,533,637)	4,053,764	910,448	6,338,096
ALI	Property	(501,059)	(337,999)	(218,542)	(55,740)	(1,504,988)	1,473,401	(5,462,565)	1,427,701	1,119,298	(2,947,153)
SM	Conglo	3,528	(356,049)	(388,250)	(147,106)	(3,971,873)	204,016	11,194,848	10,627,243	1,636,978	19,691,212
GLO	Media/Telco	(229,041)	(474,806)	(92,218)	27,870	752,489	(1,789,936)	1,291,887	(435,940)	2,847,207	2,665,707

Relevance of volume and flow analysis can be measured in terms of forecasting horizons

(measured in terms of survey response from dealers, fund managers, traders)

A few days (5 days)	37.3%
Intraday	25.4%
A few weeks (4 weeks)	21.9%
More than 2 months (max 13 weeks)	15.4%

*In our experience, compared to visually inspecting volume and flows, BoH-SEM is the most powerful tool you have for analyzing volume and flows.

HOW TO GUIDE ON BOH BLACK BOX

The BoH Black Box is the most powerful tool we have in BoH Bettor Society.

Price Action Characteristics

Our BoH Black Box publication analyses price action in aggregate across sub-sets of the BoH Investment Universe. It is designed to show which stocks are the most attractive to trade on a relative basis.

We assess price action across three dimensions:

- Price “relative momentum”, defined as momentum strength of one stock relative to other stocks.
- Price “absolute momentum”, defined as strength of current momentum relative to its own historical momentum.
- Hedge Ratio, defined as the ratio of average historical volatility and current volatility.

We publish the BoH Black Box every Friday evening.

3-Jul-15

BoH BLACK BOX

What is it?

1. BoH Black Box is a Leader-Laggard Monitor
2. Model is purely based on price and price derivations. We avoid fundamental data such as valuations and corporate action information
3. Major advantage of price based model is that stock selection becomes focused on what the market is saying and not on what fundamental narratives think

SYMBOLS	BIAS	MOM Score	HEDGE RATIO	DIVERGENCE	MONTHS COUNT	RELEAMM	ABSEAMM	HRR
GTCAP	Neutral	1.02	1.40	1	14.3	5	1	5
GLO	Neutral	1.07	1.35	0	5.8	5	1	5
FLI	Bullish	1.19	0.94	0	3.9	5	4	3
CEB	Bullish	1.12	0.81	0	1.8	5	5	1
MER	Bullish	1.15	1.09	0	1.1	5	5	4
PIP	Bullish	1.20	0.88	0	0.8	5	5	2
AP	Neutral	1.04	0.87	1	0.6	5	4	2
ICT	Neutral	1.05	0.89	0	0.3	5	5	2
DNL	Bullish	1.17	0.84	0	0.2	5	5	2
LR	Neutral	1.01	0.84	0	0.1	5	5	1
LRI	Neutral	1.05	0.82	0	0.1	5	5	1
RLC	Neutral	1.02	0.98	0	0.1	5	3	3
EEI	Neutral	1.04	0.78	0	0.0	5	5	1
ABSP	Neutral	1.00	0.94	0	0.0	5	3	2
MWC	Neutral	0.95	1.04	1	0.0	4	5	3
GMAP	Neutral	0.98	0.69	0	0.0	4	5	1
MA	Neutral	0.97	0.76	0	0.0	4	4	1
NIKL	Bearish	0.93	0.96	0	0.0	4	4	3
RRHI	Neutral	0.96	1.12	1	0.0	4	3	4

Main Factor Types?

1. Relative Momentum is the z-score of a weight RSI taken over all the stocks across the BoH universe. In a sense, this is a cross section measure of momentum.
2. Error Adjusted Momentum is a normalized return measure based on the average of re-scaled returns where re-scaled returns is the ratio of current return over a standard error forecast. This is a time series momentum measurement.

3-Jul-15

BoH BLACK BOX

SYMBOLS	BIAS	MOM Score	HEDGE RATIO	DIVERGENCE	MONTHS COUNT	RELEAMM	ABSEAMM	HRR
GTCAP	Neutral	1.02	1.40	1	14.3	5	1	5
GLO	Neutral	1.07	1.35	0	5.8	5	1	5
FLI	Bullish	1.19	0.94	0	3.9	5	4	3
CEB	Bullish	1.12	0.81	0	1.8	5	5	1
MER	Bullish	1.15	1.09	0	1.1	5	5	4
PIP	Bullish	1.20	0.88	0	0.8	5	5	2
AP	Neutral	1.04	0.87	1	0.6	5	4	2
ICT	Neutral	1.05	0.89	0	0.3	5	5	2
DNL	Bullish	1.17	0.84	0	0.2	5	5	2
LR	Neutral	1.01	0.84	0	0.1	5	5	1
LRI	Neutral	1.05	0.82	0	0.1	5	5	1
RLC	Neutral	1.02	0.98	0	0.1	5	3	3
EEI	Neutral	1.04	0.78	0	0.0	5	5	1
ABSP	Neutral	1.00	0.94	0	0.0	5	3	2
MWC	Neutral	0.95	1.04	1	0.0	4	5	3
GMAP	Neutral	0.98	0.69	0	0.0	4	5	1
MA	Neutral	0.97	0.76	0	0.0	4	4	1
NIKL	Bearish	0.93	0.96	0	0.0	4	4	3
RRHI	Neutral	0.96	1.12	1	0.0	4	3	4

3-Jul-15

BoH BLACK BOX

SYMBOLS	BIAS	MOM Score	HEDGE RATIO	DIVERGENCE	MONTHS COUNT
GTCAP	Neutral	1.02	1.40	1	14.3
GLO	Neutral	1.07	1.35	0	5.8
FLI	Bullish	1.19	0.94	0	3.9
CEB	Bullish	1.12	0.81	0	1.8
MER	Bullish	1.15	1.09	0	1.1
PIP	Bullish	1.20	0.88	0	0.8
AP	Neutral	1.04	0.87	1	0.6
ICT	Neutral	1.05	0.89	0	0.3
DNL	Bullish	1.17	0.84	0	0.2
LR	Neutral	1.01	0.84	0	0.1
LRI	Neutral	1.05	0.82	0	0.1
RLC	Neutral	1.02	0.98	0	0.1
EEI	Neutral	1.04	0.78	0	0.0
ABSP	Neutral	1.00	0.94	0	0.0
MWC	Neutral	0.95	1.04	1	0.0
GMAP	Neutral	0.98	0.69	0	0.0
MA	Neutral	0.97	0.76	0	0.0
NIKL	Bearish	0.93	0.96	0	0.0
RRHI	Neutral	0.96	1.12	1	0.0

BIAS Column

The BIAS column is based on the value printed under the MOM Score.

The MOM Score is just a rescaled version of the Error Adjusted Momentum (EAM) that oscillates between 1 instead of 0. The MOM Score and EAM are for all intents the same.

To enhance the signal-to-noise from the model, we have tweaked the BIAS column to giving Bullish, Neutral, and Bearish values.

- Bullish if MOM Score > 1.10
- Neutral if MOM Score < 1.10 and MOM Score > 0.95
- Bearish if MOM Score < 0.95

This revises the way we previously tagged BIAS as either BUY or SELL.

Basic usage is Portfolio Construction

1. Focus on stocks grouped under RELEAMM with values of 5, 4, and 3. Assess ABSEAMM value, the higher the better.
2. Momentum Score is just the a rescaled EAM. MOM Score > 1 has a BUY BIAS. MOM Score < has a SELL BIAS.
3. Next Check DIVERGENCE column. Try to avoid stocks with a value of 1. These stocks are “bearishly divergent” at the time of the report.
4. Check Months Count. Sweet spot is 3 to 6 months for trending stocks. Anything in excess can be erratic and range bound.
5. See Hedge Ratio. If HR less than one, you have time to accumulate. If HR greater than one then you can be a bit aggressive.
6. YOUR ANALYSIS ON TECHNICALS WILL BE YOUR FINAL ARBITER IF A STOCK IS GOOD OR NOT.

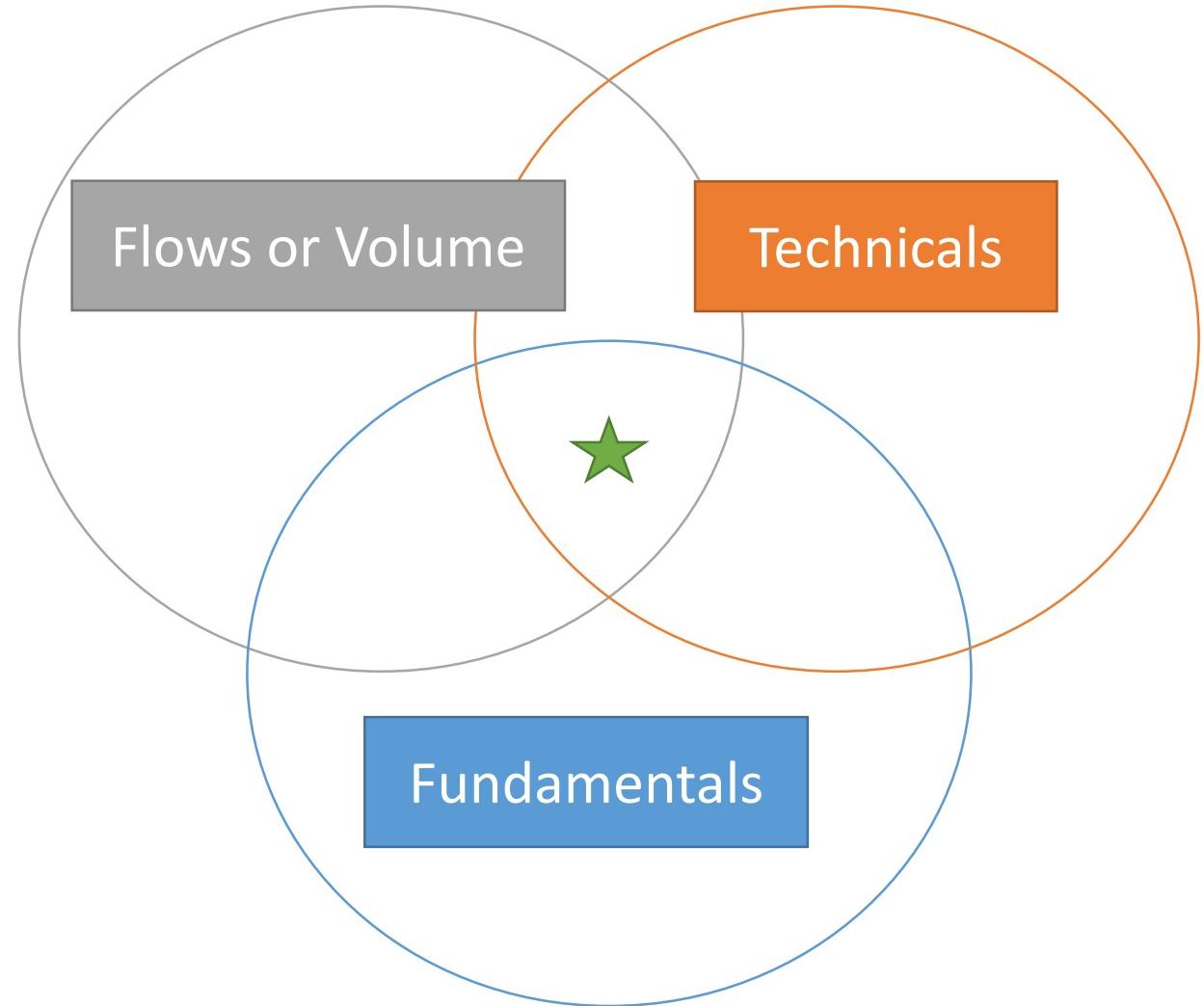
3-Jul-15

BoH BLACK BOX

SYMBOLS	BIAS	MOM Score	HEDGE RATIO	DIVERGENCE	MONTHS COUNT	RELEAMM	ABSEAMM	HRR
GTCAP	Neutral	1.02	1.40	1	14.3	5	1	5
GLO	Neutral	1.07	1.35	0	5.8	5	1	5
FLI	Bullish	1.19	0.94	0	3.9	5	4	3
CEB	Bullish	1.12	0.81	0	1.8	5	5	1
MER	Bullish	1.15	1.09	0	1.1	5	5	4
PIP	Bullish	1.20	0.88	0	0.8	5	5	2
AP	Neutral	1.04	0.87	1	0.6	5	4	2
ICT	Neutral	1.05	0.89	0	0.3	5	5	2
DNL	Bullish	1.17	0.84	0	0.2	5	5	2
LR	Neutral	1.01	0.84	0	0.1	5	5	1
LRI	Neutral	1.05	0.82	0	0.1	5	5	1
RLC	Neutral	1.02	0.98	0	0.1	5	3	3
EEI	Neutral	1.04	0.78	0	0.0	5	5	1
ABSP	Neutral	1.00	0.94	0	0.0	5	3	2
MWC	Neutral	0.95	1.04	1	0.0	4	5	3
GMAP	Neutral	0.98	0.69	0	0.0	4	5	1
MA	Neutral	0.97	0.76	0	0.0	4	4	1
NIKL	Bearish	0.93	0.96	0	0.0	4	4	3
RRHI	Neutral	0.96	1.12	1	0.0	4	3	4

Elements that Drive Good Trades

- Traders need to understand that no one factor can drive good trades. The biggest mistake we've seen so far from those that apply TA is that they think the formation of recognizable patterns or completion of wave counts is enough to make a trade profitable.
- While we're certain these types of traders will be "lucky" once or twice, they will never be consistent. To be consistent, you need two of the three elements (i.e. Flows/Volume, Technicals, and/or Fundamentals) to be in good trades. Ideally, you'd like your trades to have all three elements, but in reality, this isn't always the case. Here's reality.
- In order of preference, the combos can be:
 - TA + Flows (most preferred)
 - FA + Flows (yeah, sure, why not?)
 - FA + TA (least preferred)



TIPS ON PORTFOLIO CONSTRUCTION

TIPS ON PORTFOLIO CONSTRUCTION

1. Use simple rules. You need rules that are consistent, logical, and replicable. You need rules that you will follow!

2. Define your market bias. Are you bullish, bearish, or chicken? This sets your equity allocation or the % of capital you intend to invest given your bias.

3. Define your investment universe. Instill discipline on yourself by saying before hand which names you will trade only.

4. Finally, determine the maximum number of names you intend to put in your portfolio. Too many names will dilute your returns. Too few and you increase your risk of regret. Sweet spot for those with Php10 million up is 7-11 stocks. Portfolios less than Php1 million should have no more than 5-7 names. All-in-bets of 1-3 names are for active, experienced, professional traders only.

#stayBoH